

RatingsDirect®

Summary:

Scituate, Massachusetts; General Obligation

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Credit Profile

US\$6.18 mil GO mun purp loan bnds ser 2021 dtd 03/04/2021 due 03/15/2031

<i>Long Term Rating</i>	AA+/Stable	New
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Scituate Twn GO

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Scituate Twn GO muni purpose loan of 2020 bnds due 11/01/2040

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Scituate, Mass.' 2021 general obligation (GO) bonds. At the same time, we affirmed our 'AA+' rating on the town's existing GO debt. The outlook is stable.

Scituate's full faith and credit, subject to the limitations of Proposition 2-1/2, secures the bonds, notes, and GO debt outstanding. Despite limitations imposed by the commonwealth's levy limit law, we did not make a rating distinction between the limited- and unlimited-tax GO pledges because of the town's operating flexibility under the levy limit. A portion of bond proceeds will be used to refinance the town's 2008 and 2011 GO bonds, while the remainder will be used to finance various capital projects.

Concurrently, Scituate is also issuing \$4 million in bond anticipation notes (BANs) which will not be rated.

Credit overview

Scituate is an affluent residential community southeast of Boston with a stable tax base which makes up over 80% of general fund revenues during this period of economic contraction. However, we do not expect it to affect the town's ability to maintain budgetary balance in light of Scituate's very strong cash and reserve position. The town is committed to maintaining its fund balance and is prepared to freeze capital spending if needed. However, despite management's continued commitment to addressing these challenges, risks related to climate concerns and rising retirement costs continue to constrain the rating. Our outlook is generally for two years; however, we see downside risks associated with the continuation of the COVID-19 pandemic and recent recession over the next six-to-12 months.

The rating reflects our view of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, which closed with an operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2020 that reflects our view of near-term economic and financial pressures resulting from COVID-19;

- Strong budgetary flexibility, with an available fund balance in fiscal 2020 of 11.3% of operating expenditures;
- Very strong liquidity, with total government available cash at 23.9% of total governmental fund expenditures and 3.4x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 6.9% of expenditures and net direct debt that is 101.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating incorporates our view regarding the indirect risks posed by the COVID-19 pandemic. Absent the implications of COVID-19, we consider the town's social risks in line with those of the sector. We view Scituate's governance risks as being generally in line with those of peers, although pension funding discipline and assumption choices will likely lead to elevated costs for the town. Environmental risks are higher than average for the sector, in our opinion, due to the town's coastal location. To this end, Scituate has been proactive in formalizing governance and planning for its coastal sustainability and resilience, which we believe will enable it to partially mitigate potential associated financial pressures over the longer term.

Stable Outlook

Downside scenario

We could lower the rating should the town's budgetary performance show signs of weakening to levels requiring significant draws on reserves.

Upside scenario

Should the town adopt strengthened financial management policies and procedures, leading to improvement and maintenance of reserves commensurate with those of higher rated peers, while managing its retirement costs and reducing its long-term liabilities, we could raise the rating.

Credit Opinion

Very strong economy

We consider Scituate's economy very strong. The town, with a population of 18,746, is in Plymouth County in the Boston-Cambridge-Newton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 188% of the national level and per capita market value of \$274,529. Overall, market value grew by 5.6% over the past year to \$5.1 billion in 2021.

Scituate is a primarily residential community with a population that increases in the summer due to the town's oceanfront location and five beaches along its 57 miles of tidal shoreline, in addition to other saltwater recreation areas for various marine activities. The town's oceanfront location with access to Boston makes Scituate an attractive residential community, but also makes it susceptible to coastal flooding. Officials are taking steps to mitigate the effects of future storms through beach replenishment programs, seawall construction, and managed retreat.

The growth in assessed value over the past several years continued into 2020, in part due to the town's desirable location and inventory shortage. Scituate is largely built-out and includes high-end residential and mixed-use developments centered on the commuter rail station. Additionally, management notes that there are several private development projects underway. The town reports construction has not decreased as a result of COVID-19.

The county unemployment rate was 3.0% in 2019. We continue to monitor the macroeconomic environment, including the county-level unemployment rate given that it peaked at 19% in June 2020. However, it has since moderated to 6.5% in November 2020, which remains below state and national averages, and thus we do not expect to revise our view of the town's overall economic profile.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Consistent budget monitoring and conservative revenue and expenditure assumptions are among the key management highlights. Budget-to-actual reports for each fund are completed regularly and can be produced on an ad hoc basis; they are submitted to the town's Board of Selectmen on a quarterly basis. The town also produces monthly receipt reports for each fund to track revenues. Notably, it is separately tracking COVID-19 expenditures incurred to date, along with funding sources. The town maintains a five-year, annually updated long-term financial plan.

A five-year rolling capital improvement plan (CIP) is in place, tracking the town's capital expenditure needs, as well as identifying the funding sources for each. In addition to the modernization of the water system and the feasibility study of regional sewer expansion, coastal risk management is incorporated into the town's capital planning. Specifically, Scituate is pursuing grant options for home elevations, hazard mitigation plan updates, and drainage studies, as well as other coastal assessment and resiliency projects. The town has a coastal advisory commission in place to implement the sustainability plan, which includes community outreach and education. Furthermore, it participates in the National Flood Insurance Program's CRS program to maintain its rating, which qualifies homeowners for a 15% discount on the cost of flood insurance. In conjunction with the infrastructure projects planned and underway, we believe the town is taking steps to ensure the tax base and its assets are protected from future weather events. Furthermore, due to its extended coastline, Scituate has a coastal advisory commission which conducts studies on downtown harbor business district sustainability and resiliency, including FEMA foreshore protection repairs, and employs one full-time staff person dedicated to coastal matters.

Scituate has a comprehensive investment policy that limits investments to safe and highly liquid vehicles and mandates an annual review by the treasurer and town administrator. While reporting is required semi-annually, the town produces monthly reports. It also has a basic debt and reserve policy. The reserve policy sets a minimum reserve level of 1% of revenues, to which the town adheres. The town is currently reviewing its financial policies and aims to adopt the updated versions in 2021.

Finally, the town reviews its cybersecurity protocols regularly and has carried cyber-risk insurance for the last three years. It is proactive in upgrading its security and strengthening of firewalls.

Adequate budgetary performance

Scituate's budgetary performance is adequate, in our opinion. The town had surplus operating results in the general fund of 1.8% of expenditures, but a slight deficit result across all governmental funds of negative 1.3% in fiscal 2020. Our assessment accounts for the fact that the outbreak of COVID-19 and ensuing national recession present near-term budgetary pressures.

For analytical consistency, we adjusted annual budgetary performance to account for recurring transfers among the general, nonmajor governmental, and enterprise funds. We additionally accounted for the expenditure of bond proceeds and special revenue funds within the nonmajor governmental funds. Property taxes account for 70% of general fund revenues, followed by intergovernmental operating aid at 9%.

For fiscal 2020, officials limited expenditures from March 2020 to only COVID-19 response and continuing operations; all related expenses were accommodated through grants and the operating budget, which totaled \$2.8 million. Of this, the town has already received \$1.5 million and expects the remainder to be reimbursed in full. Management reports that negotiations are underway for the expiring labor contracts; however, we do not anticipate material changes or budgetary pressure in the settled contracts. On the revenue side, the town reports revenue projections were exceeded in the general fund, and in four of the five enterprise funds. Furthermore, despite extending the property tax deadline by 30 days, the collection rate remained in line with prior years at 98.7%.

The fiscal 2021 budget process is consistent with the town's financial policies, whereby no free cash is used to balance the budget. Revenue projections were revised and the budget was reduced by \$1.5 million. Specifically, local receipt projections were reduced by 2.5%, meals tax by 50%, and state aid projections to 10% lower than fiscal 2020 projections. The town reports that state aid came in as expected, and it is expecting it to increase in fiscal 2022. A hiring freeze was implemented which has since been lifted, and additional funding for the new building's operational costs have been considered. Furthermore, the town budgeted a decline in meals tax receipts of 50% and report only a 17% reduction to date. Scituate has conservatively forecast increases in insurance costs and regional school assessments, and is evaluating rate structures across enterprise funds to identify supplemental sources for capital projects and infrastructure needs. Additional funding has been allocated to the workers' compensation reserve, and any additional funds were redirected to the unemployment reserve, to offset any potential pressure. The town continues to work with FEMA on four legacy disasters. To date, it has received \$190,000 in fiscal 2021 for a total of \$1.6 million in the last six years. Given management's actions to curb expenditures in tandem with stable revenue performance, we expect financial stability to continue.

While we expect budgetary performance to remain stable, at least in the short term, we believe future pension and OPEB costs could become a budgetary pressure given below-average funding ratios and what we view as aggressive assumptions within the pension plan. As long-term liability expenses increase, management is actively making budgetary adjustments to absorb this growing expense. We note that Scituate is funding the actuarially determined contribution for its pension plan and has created a trust fund to begin reducing its OPEB liability, to which it recently increased its annual contribution. We also believe adjustments to more conservative assumptions could materially affect annual contributions, pressuring budgetary performance, particularly if economic conditions worsen.

Strong budgetary flexibility

Scituate's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2020 of 11.3% of operating expenditures, or \$10.4 million.

Following the decline in the town's available fund balance in fiscal 2018 due to the reclassification of reserves previously considered available, fiscal year 2019 and 2020 results have increased as expected. While Scituate recognizes that the effects of COVID-19 are uncertain, it is modifying its fiscal 2021 budget accordingly and therefore does not anticipate drawing down on its fund balance over the next year other than for planned one-time capital projects.

Very strong liquidity

In our opinion, Scituate's liquidity is very strong, with total government available cash at 23.9% of total governmental fund expenditures and 3.4x governmental debt service in 2020. In our view, the town has strong access to external liquidity if necessary.

We expect Scituate's liquidity profile to remain very strong as there is no anticipation of any significant deterioration of cash balances. The town has strong access to external liquidity as demonstrated by frequent debt issuances. In addition, we note that Scituate does not have any variable-rate or direct-purchase debt, reducing its exposure to any contingent liquidity risks.

Adequate debt and contingent liability profile

In our view, Scituate's debt and contingent liability profile is adequate. Total governmental fund debt service is 6.9% of total governmental fund expenditures, and net direct debt is 101.7% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, which is, in our view, a positive credit factor.

With this issuance, the town will have about \$112.2 million in net direct debt, including BANs. It plans to issue up to \$85 million for elementary school repairs, as well as up to \$40 million for a water treatment plant, in five-to-seven years. Any issuance in the short term has yet to be determined, but we do not anticipate it will have a meaningful effect on our view of the town's debt as a percentage of revenues. However, should debt service rise above 8%, we would likely revise our view of the debt and liabilities profile, all else being equal.

Pension and other postemployment benefits

- In our opinion, a credit weakness is Scituate's large pension and OPEB obligation. The town's retirement liability carrying charge remains low, but due to optimistic pension assumptions, we believe costs are likely to grow.
- The town meets its actuarially determined pension contribution annually and is contributing to an OPEB trust fund in addition to its pay-as-you-go costs. As we expect costs to rise, we do not expect the town to make material progress in funding its OPEB liability in the near future.
- Additionally, we believe the pension plan may not meet its assumptions, resulting in a longer-than-planned amortization period.

As of June 2020, the town participated in the following plans:

- Plymouth County Contributory Retirement System: 61.6% funded, \$45.1 million proportionate share of the net pension liability.

- A defined-benefit health care plan that provides health care insurance benefits to retirees: 0.89% funded, with an OPEB liability of about \$125.2 million.

Scituate's combined required pension and actual OPEB contributions totaled 6.9% of total governmental fund expenditures in 2020. Of that amount, 4.5% represented required contributions to pension obligations, and 2.4% represented OPEB payments. The town made its full annual required pension contribution in 2020. The funded ratio of the largest pension plan is 56.1%.

The Plymouth County system is a cost-sharing, multiple-employer pension plan. We expect the plan's annual costs to largely outpace budgetary growth. (For more information on the plan, please see "Pension Spotlight: Massachusetts," published Oct. 14, 2020, on RatingsDirect.) The plan recently lowered its discount rate from 8.0% to 7.875%. This remains materially higher than our 6.0% guideline that we believe is likely to limit cost volatility and could lead to variable and increasing costs if assumptions are not met. We expect the town's costs to continue to rise as a percentage of expenditures. Scituate also participates in the Massachusetts Teachers' Retirement System; however, the state recognizes the full liability and makes all payments on behalf of the town for the school department.

The town pays OPEBs on a pay-as-you-go basis. Scituate has established a trust for the liabilities totaling \$1.2 million in fiscal 2020. The town contributed additional funds to the trust in fiscal 2021, bringing the balance to \$1.4 million. While the liability is elevated as a percentage of the budget, the annual cost as a percentage of expenditures remain manageable.

Strong institutional framework

The institutional framework score for Massachusetts municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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